

# **EXHIBIT B**

# Eggs

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## Tiffany Mercuri

March 2007



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# Agenda

- Category Team
- Industry Overview
- Market Assumptions
- Strategy
- Category Spend
  - Dried
  - Liquid
  - Frozen



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## Egg Category Team

### Team Member

### Function

Tiffany Mercuri

Buyer

Mary Ann Thompson

Sourcing Assistant

Erika Smith

MDT

Melissa Haase

MDT

Dave Walsh

MDT

Rita Hosie

QRO



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## Egg Industry Facts

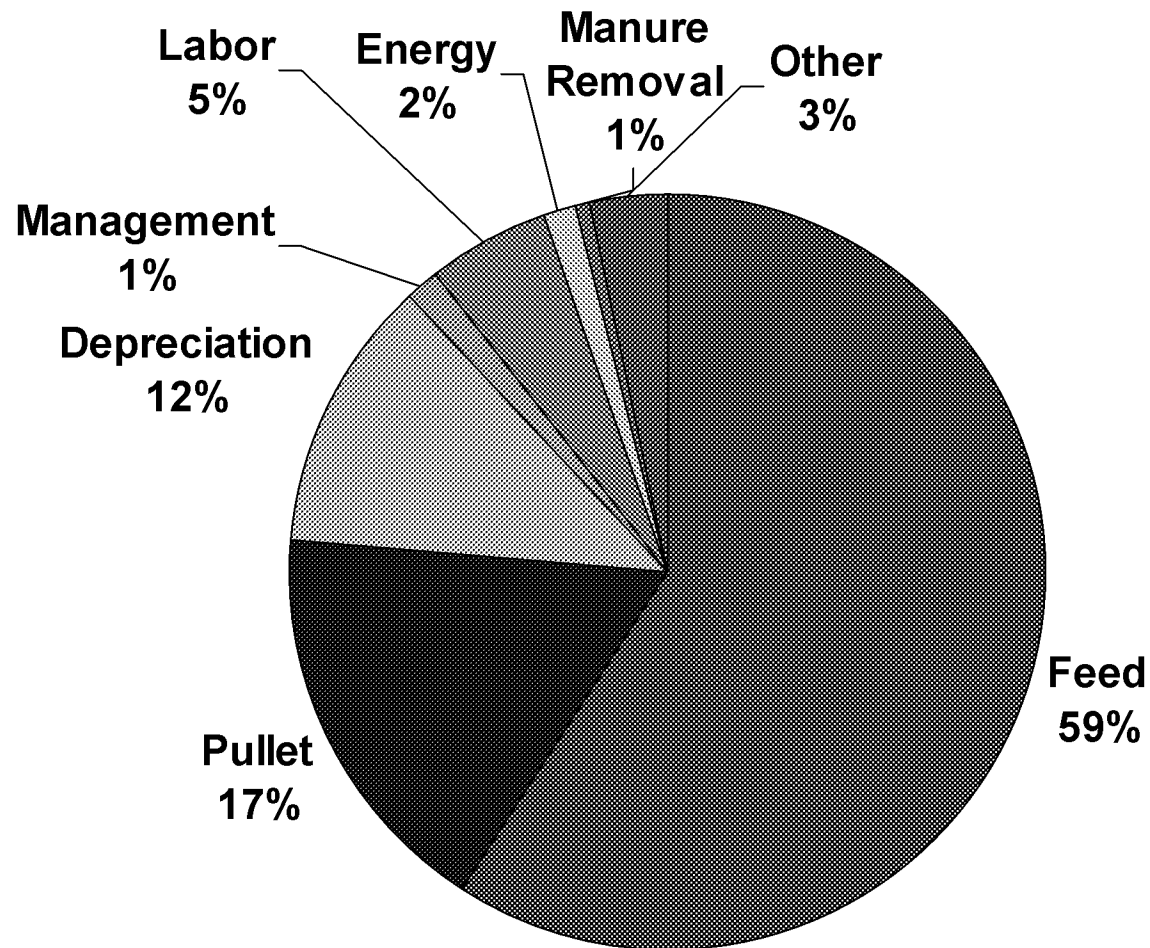
- 287MM egg layers in the US produce 5.5B dozen eggs per year valued at \$5.3B
  - 22-26 hours for a layer to lay one egg
  - 275-300 eggs per layer per year
  - GMI spend = <1% of total industry
- Top egg producing states (ranked by # of layers) represents 50% of all US layers
  - Iowa – 51MM
  - Ohio – 28MM
  - Indiana – 24MM
  - Pennsylvania – 22MM
  - California – 18MM
- Egg product exports
  - Japan - \$43.1MM
  - Canada - \$26.5MM
  - Mexico - \$13.1MM
  - Korea - \$3.8MM



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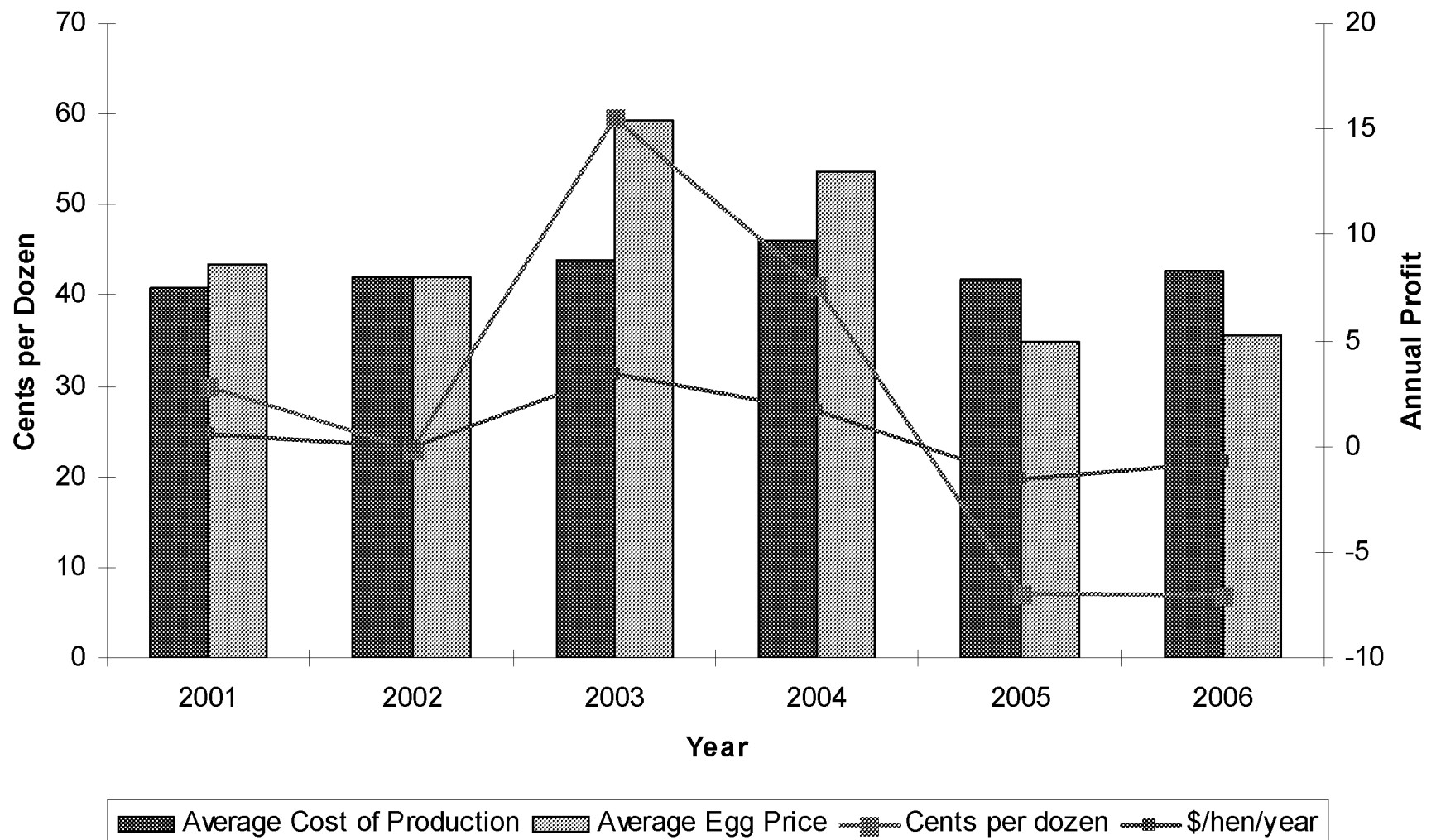
# Total Egg Production Cost



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# Egg Industry Profitability 2001- 2006



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## Egg Market Overview

- Market displayed more volatility than normal in 2006
  - An imbalance in supply / demand created excess supplies
  - Highly unstable financial situation for the production sector as the year closed
  - Exports have helped to reduce over-stocks somewhat
- Production costs will continue to elevate due to strong corn prices and high feed costs
  - Market will need to continue to trade stronger to keep pace with rising cost structure
  - Rebalancing of supply to sustainable levels will create a less volatile environment



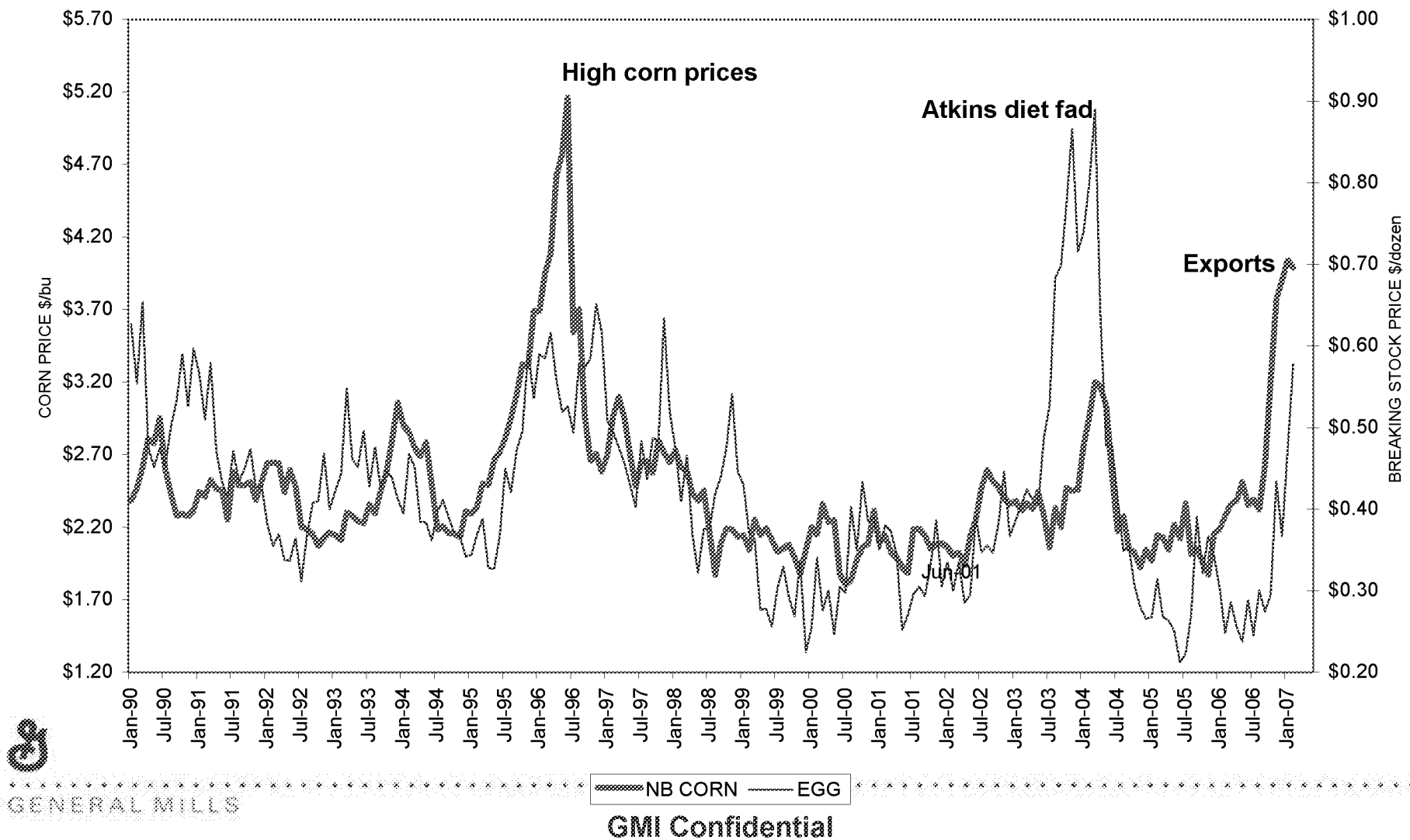
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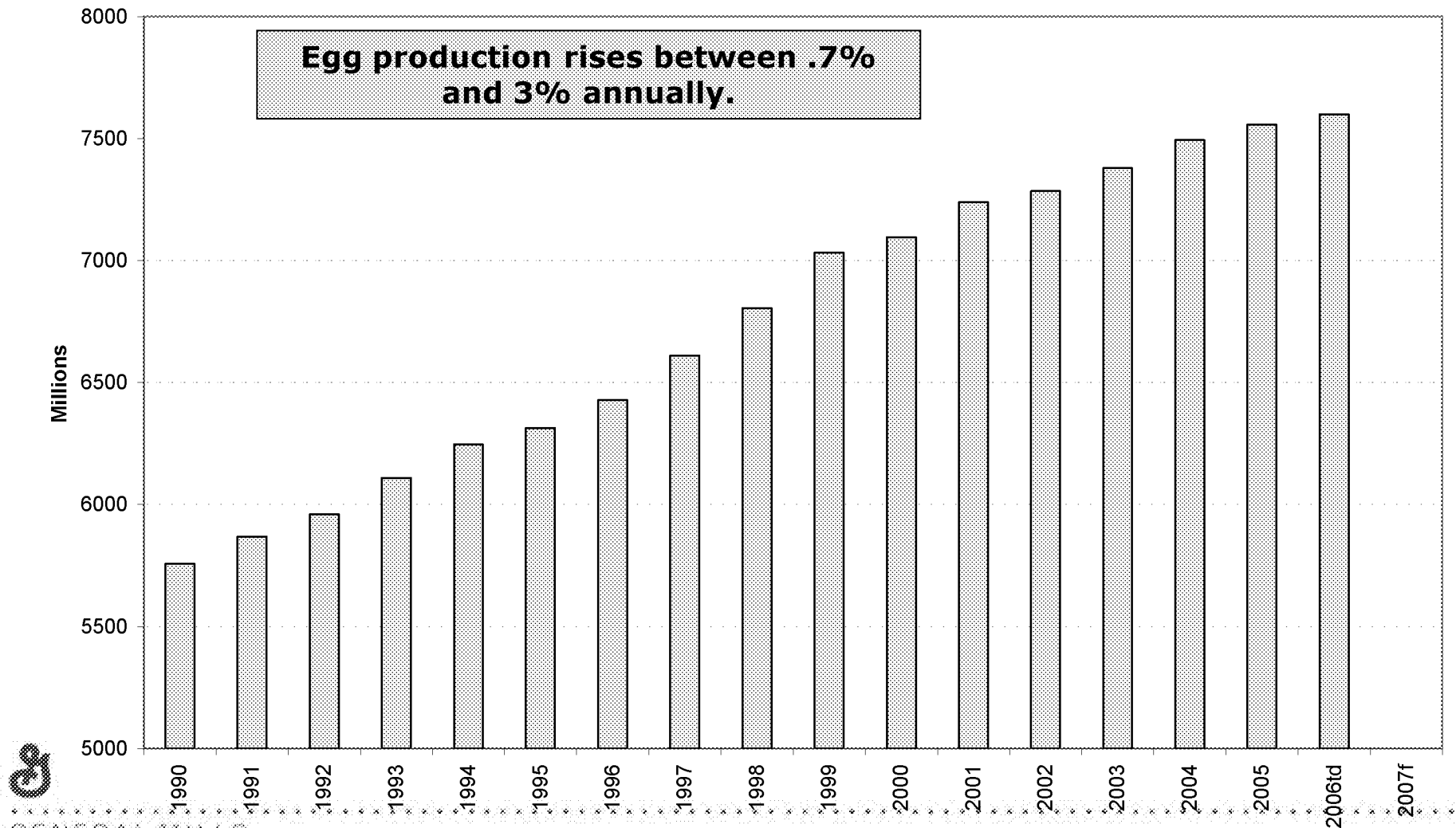
# Breaking Stock Prices vs. Corn Prices

## Breaking Stock Prices vs. Corn Prices



# U.S. Total Egg Production

## U.S. TOTAL EGG PRODUCTION (1990-present)

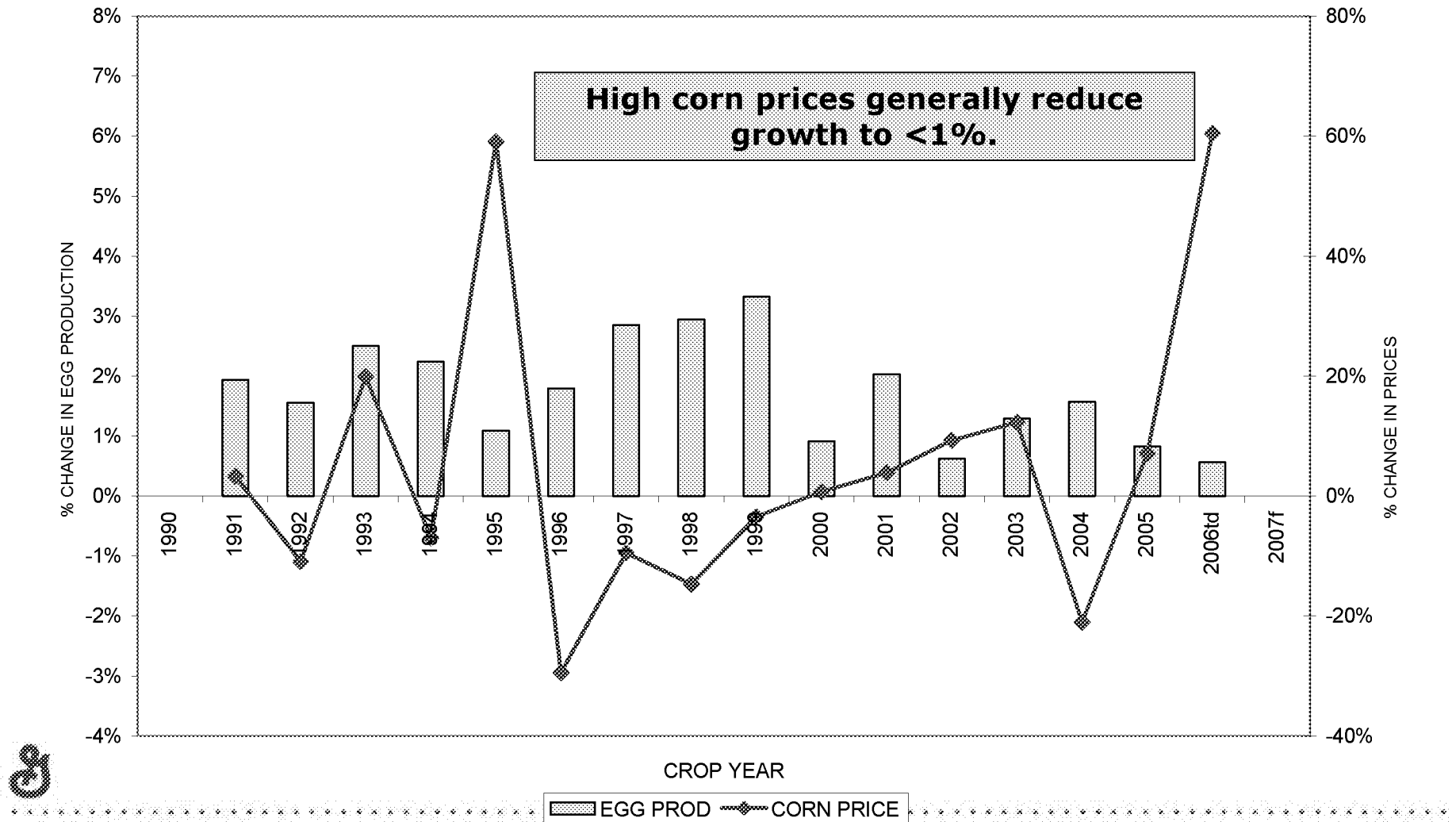


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# % Change in Corn Prices and Egg Production

% CHANGE IN CORN PRICES AND EGG PRODUCTION

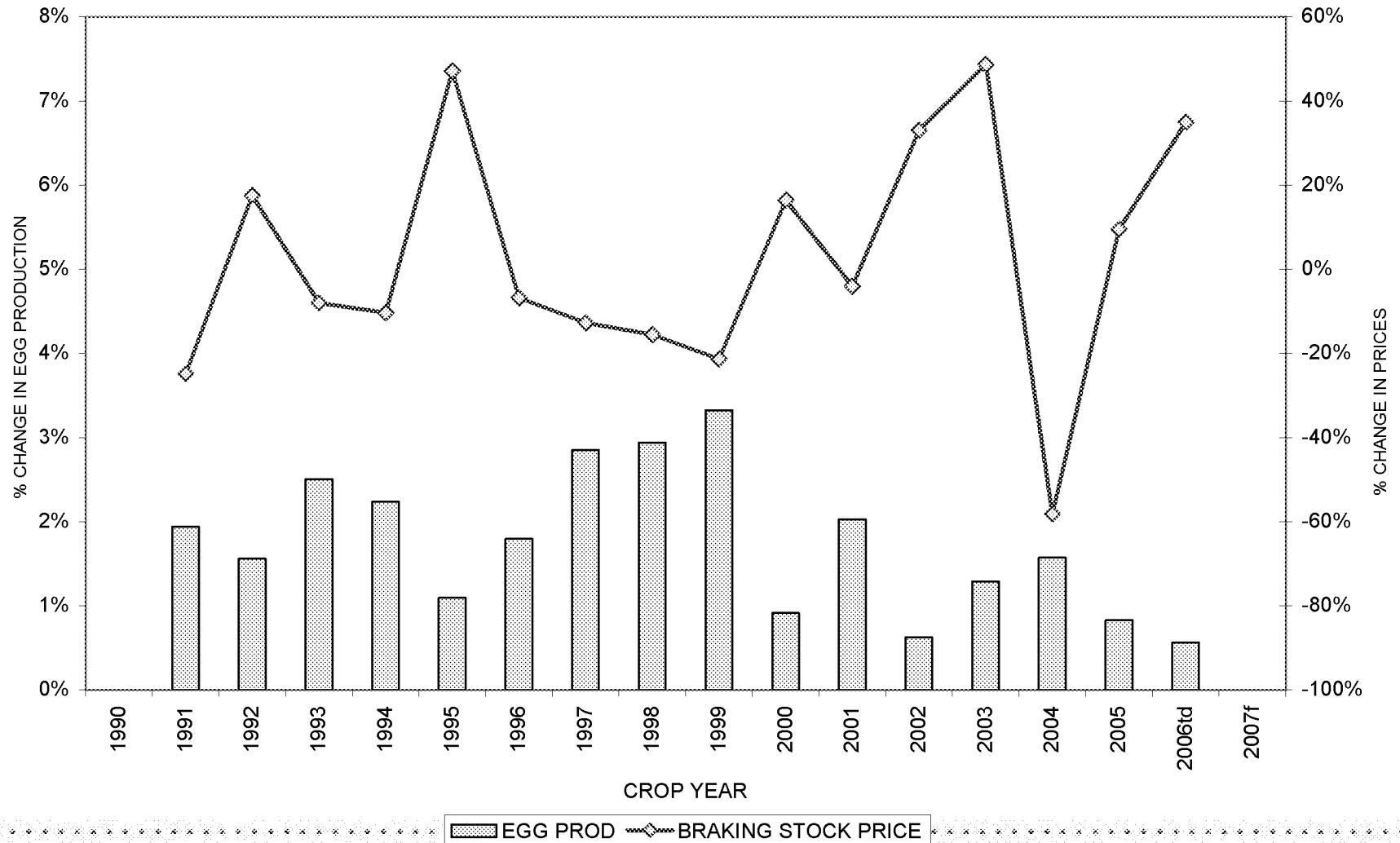


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# % Change in Breaking Stock and Egg Production

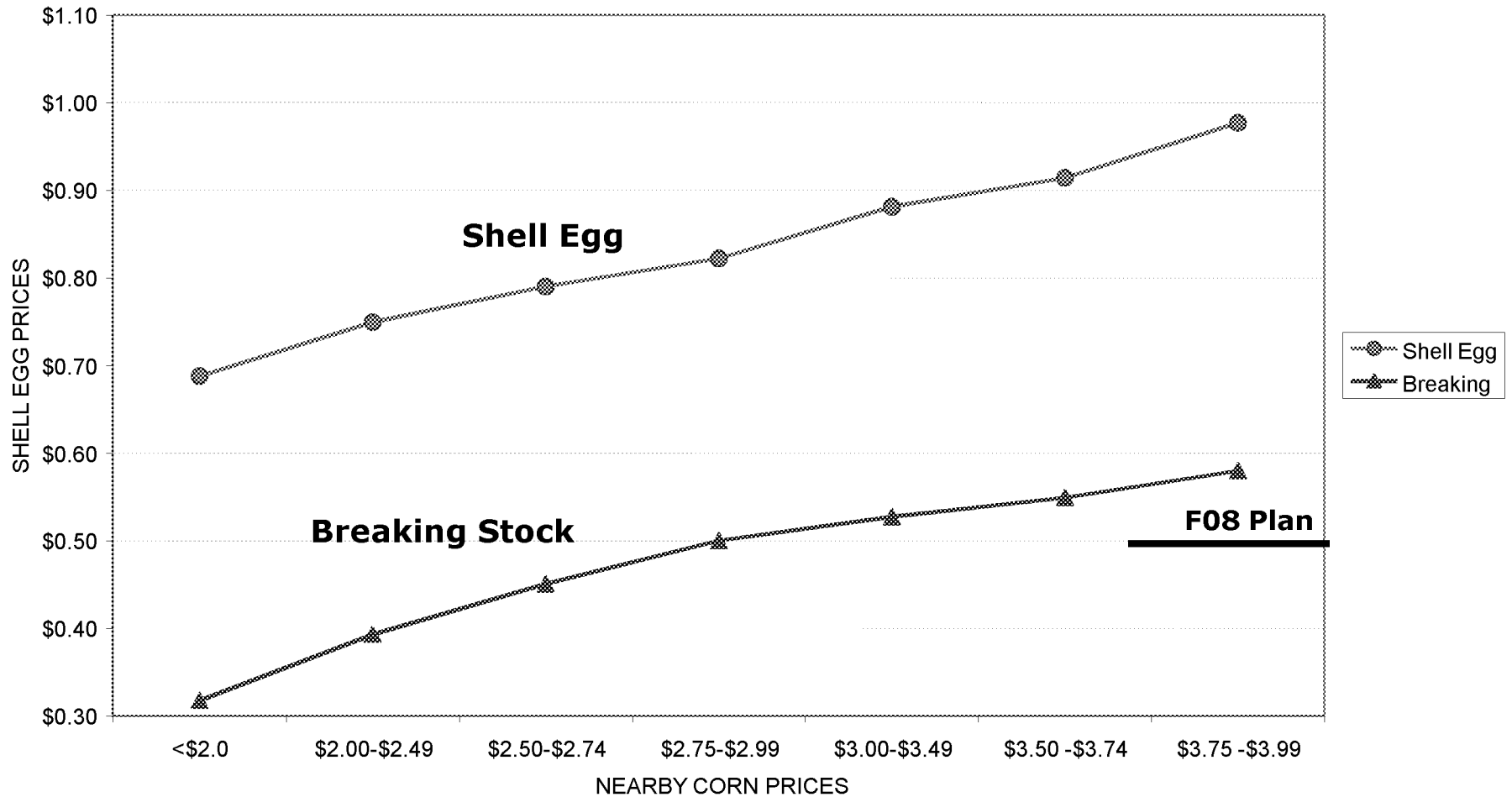
**If egg production increases less than 1.5% annually, BE price typically increases significantly. Wild card this year: Despite high grain prices, margins are still good.**



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## AVERAGE EGG AND BREAKING STOCK PRICES AT VARIOUS CORN PRICES (1990-2006)



**Prices above \$3.50 generally support BE prices above \$.55**

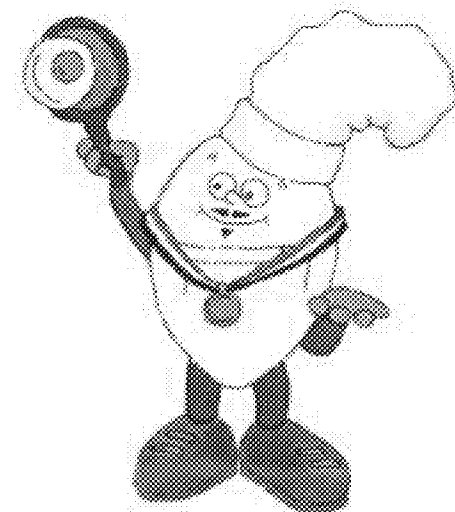


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## What do eggs DO???

- Egg whites incorporate air and volume into desserts such as angel food cake
- Egg yolks thicken and help bind ingredients in mayonnaise, salad dressing and soufflés
- Whole eggs add structure and rigidity to muffins, cakes, cookies and breads, as well as acting as a binding agent

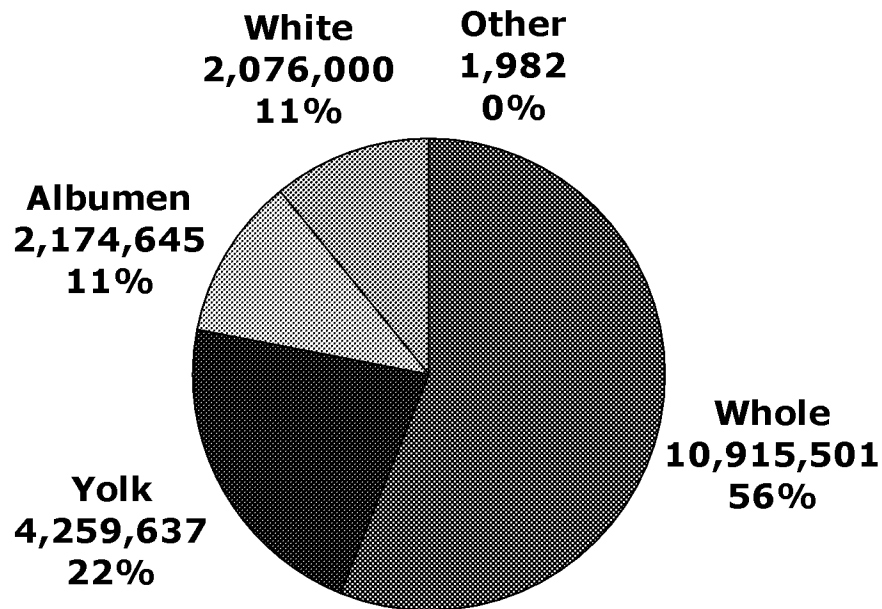


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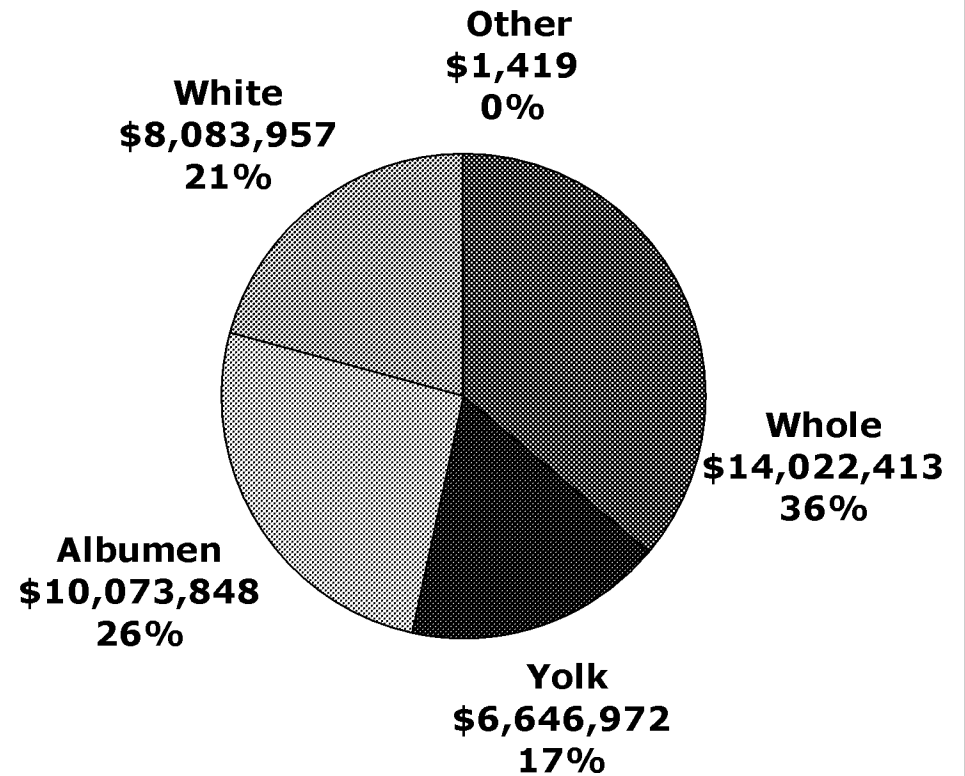
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# F08 Egg Spend

**19,427,765 LBS**



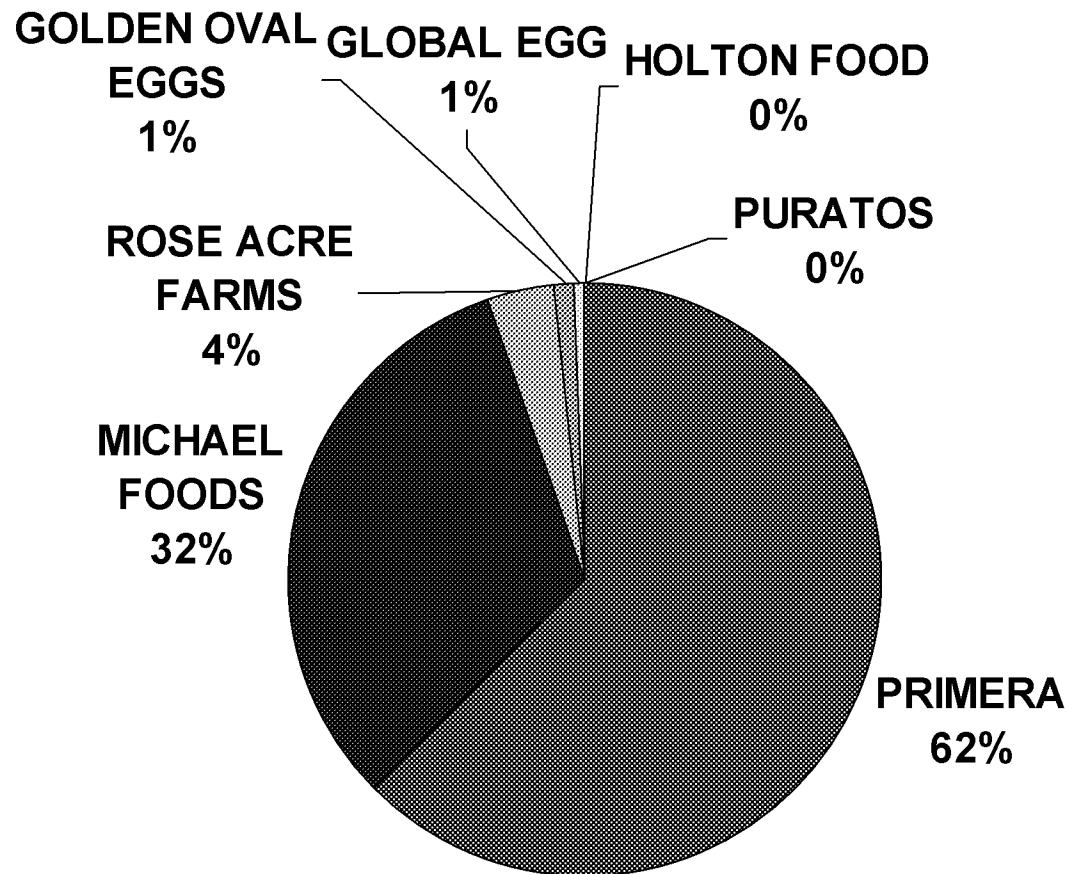
**\$38,828,609**



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## Egg Spend by Supplier - \$38.8MM



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## Egg Suppliers

Primera \$23.8MM

- Five year supplier agreement ending in December
- New leadership reduces confidence in relationship
- Main dried egg supplier

Michael Foods \$12.5MM

- Liquid & dried egg supplier
- Evaluating opportunity for extended contract

Rose Acre Farms \$1.4MM

- Supplies egg whites to Martel FS

\* Alternative Supplier: Rembrandt

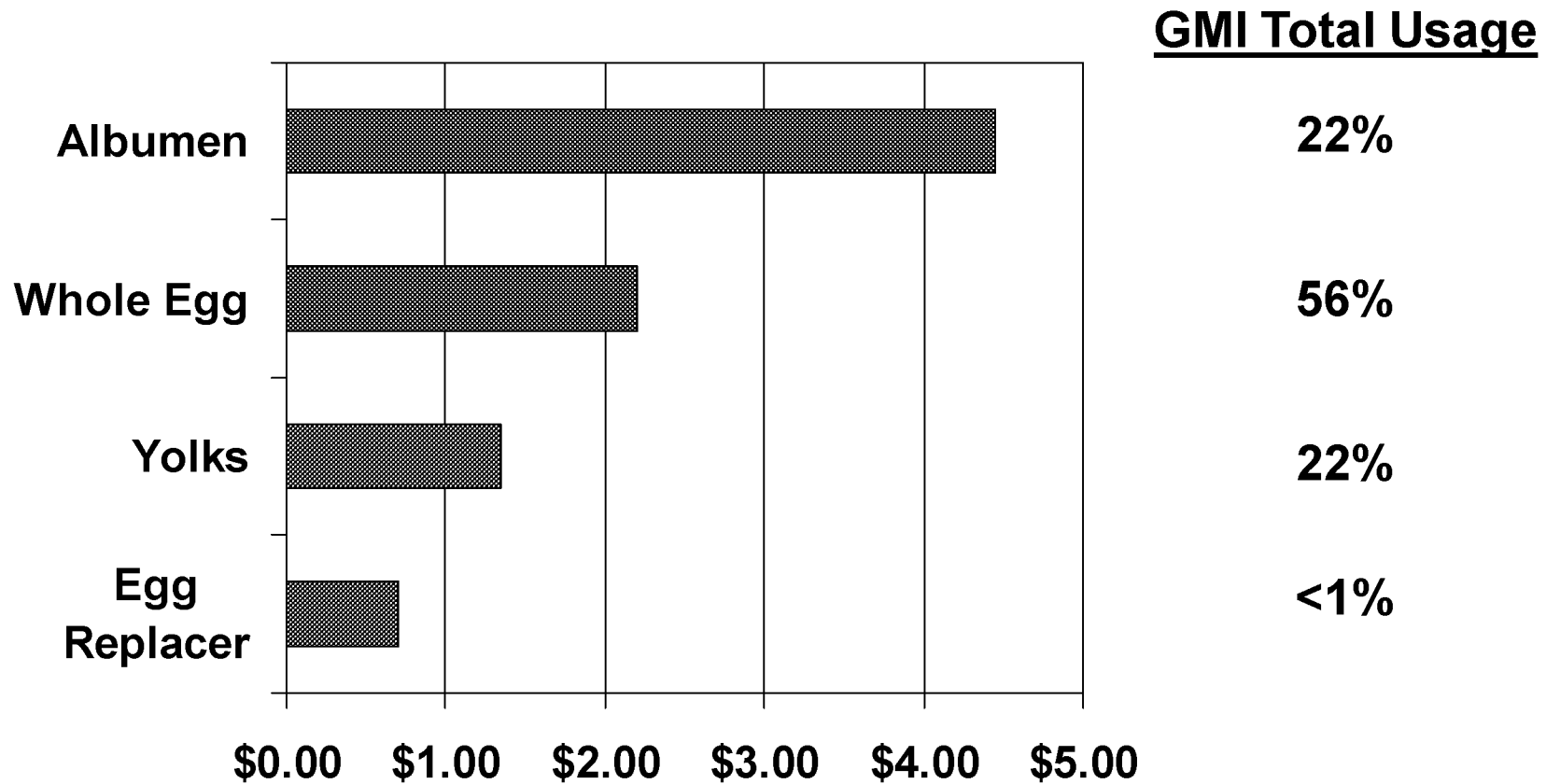
- Entering dried egg market with capital investment
- Currently supply liquid eggs to Primera for GMI dried eggs
- Proposals for cost plus and market based models on table



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# Egg Comparative Costing

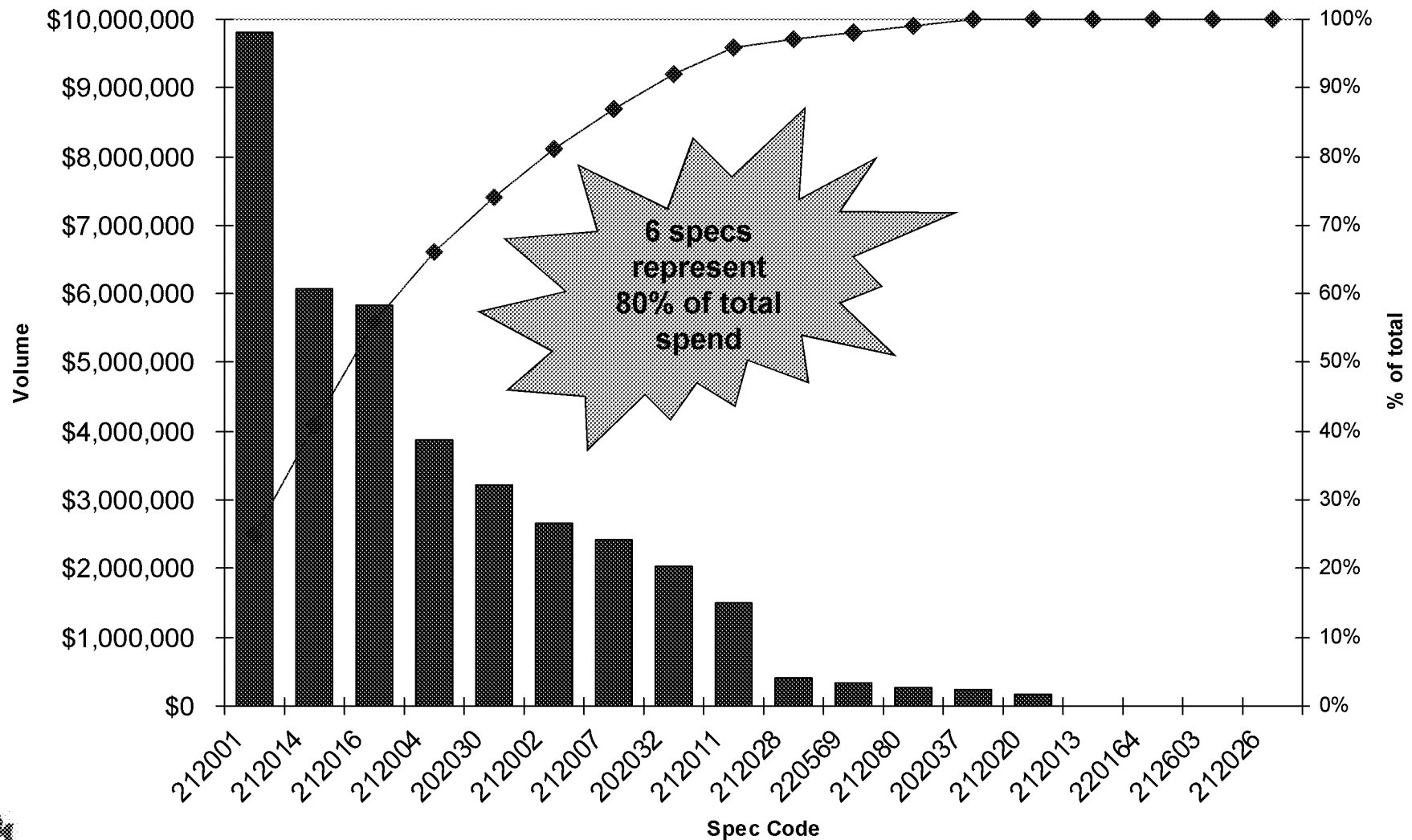


\* Based on Feb UB market

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# Egg Spec Pareto Chart



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# Egg Strategy Options

	<u>Description</u>	<u>Advantages</u>	<u>Disadvantages</u>
<b>Breaking Stock Model</b>	<ul style="list-style-type: none"> <li>* All prices based off of breaking stock price</li> <li>* Buy in low demand periods of late spring to dry for Jul-Feb needs</li> </ul>	<ul style="list-style-type: none"> <li>* Seasonality of market drives supplies up and prices down in summer months</li> <li>* Ability to store lower priced eggs for later use</li> </ul>	<ul style="list-style-type: none"> <li>* Exports of excess supplies depletes inventories causing volatility</li> </ul>
<b>Cost Plus Model</b>	<ul style="list-style-type: none"> <li>* Prices based on corn and SBM plus a negotiated margin</li> <li>* Market price - drying margin - discount + corn /SBM cost</li> </ul>	<ul style="list-style-type: none"> <li>* Reduce variation in the market</li> <li>* Utilize GMI expertise in grain risk management</li> </ul>	<ul style="list-style-type: none"> <li>* GMI assumes risk for grain market</li> <li>* In an over supply market, does not make sense because prices will be naturally lower</li> </ul>
<b>Market Based Model</b>	<ul style="list-style-type: none"> <li>* Price based on current market</li> <li>* Market price + conversion price + margin - discount</li> </ul>	<ul style="list-style-type: none"> <li>* Increased production drives price down</li> </ul>	<ul style="list-style-type: none"> <li>* At the mercy of market volatility</li> <li>* Inability to set solid plan for the year</li> </ul>

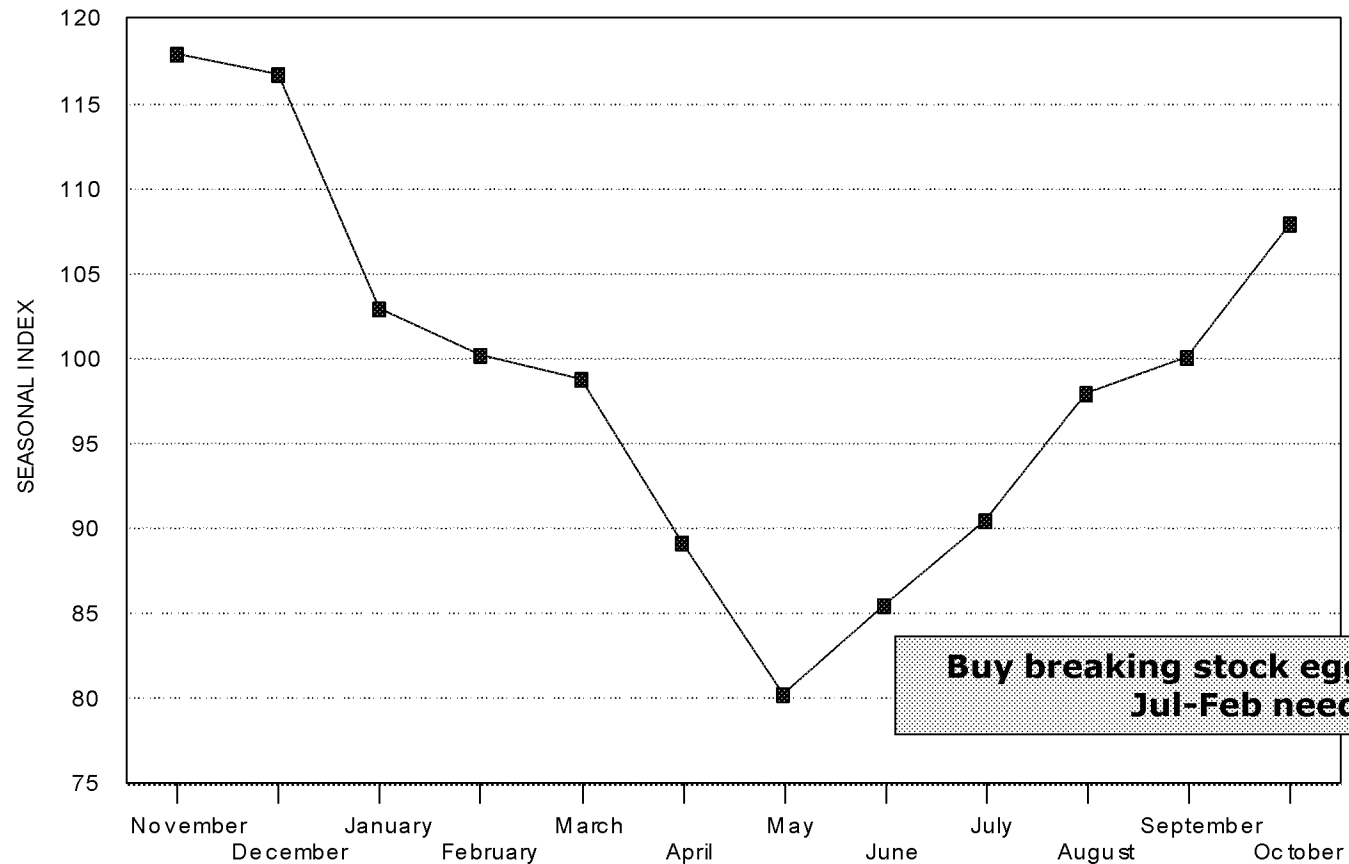


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# Breaking Stocks Seasonal Index

**BREAKING STOCKS SEASONAL INDEX (1997-2006)**



**Buy breaking stock eggs to dry for  
Jul-Feb needs**

**Seasonal index is the basis for the drying agreement with Primera.**

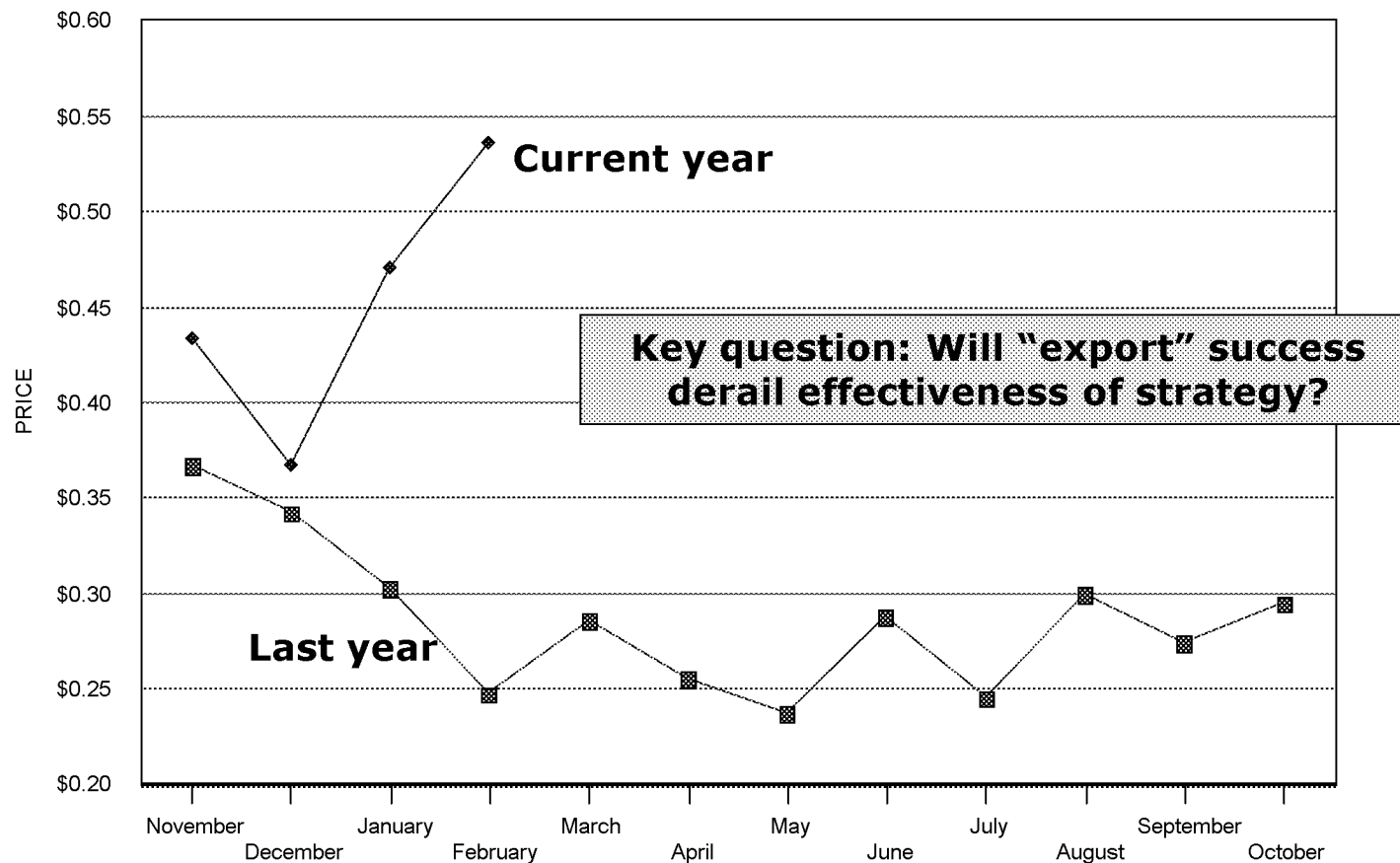


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# Breaking Stocks 2006 vs. 2007

**BREAKING STOCKS PRICE 2006 vs. 2007**



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# Category Summary – Dried Egg

## **Category Description:**

- \* \$23.7MM category
- \* Divisions Impacted: BFS, Baking Products, PBUS, Export, Canada Foods
- \* # of Specs: 12
- \* Major Suppliers: Primera, Michael Foods
- \* Major price drivers: Cost of breaking stock, feed price, domestic supply

## **Current Strategy:**

- \* Supplier agreement in place through CY2007 with Primera Foods
  - Contracts based on seasonality (buy during low summer months for use later in year)
- \* Evaluating alternative supplier for dried eggs (Rembrandt)
  - Cost plus model or market based model proposals
  - Understand impact of corn & SBM costs on egg prices

## **Challenges:**

- \* Need in-depth analysis of egg industry and historic pricing - Aleks
- \* Volatile egg market impacts decision analysis
- \* Identify alternative supplier for egg whites in Martel angle food cake

## **Project Overview:**

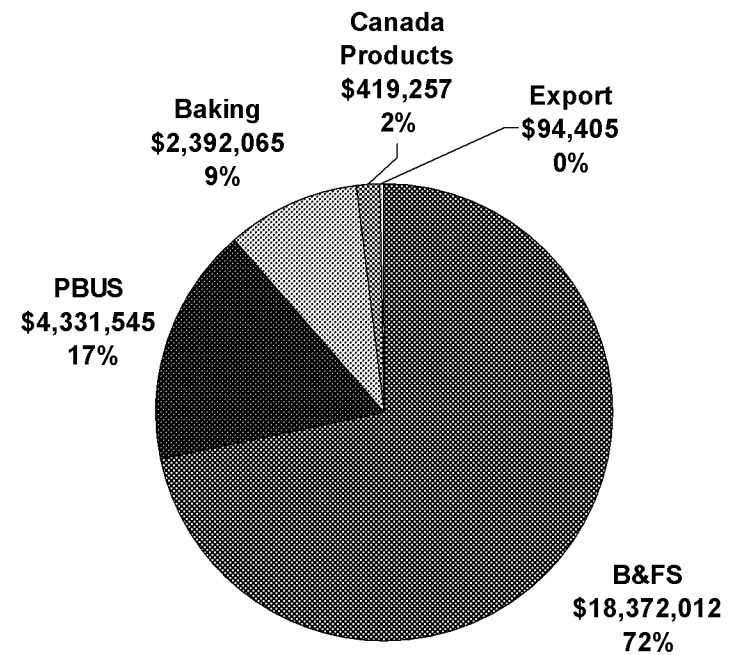
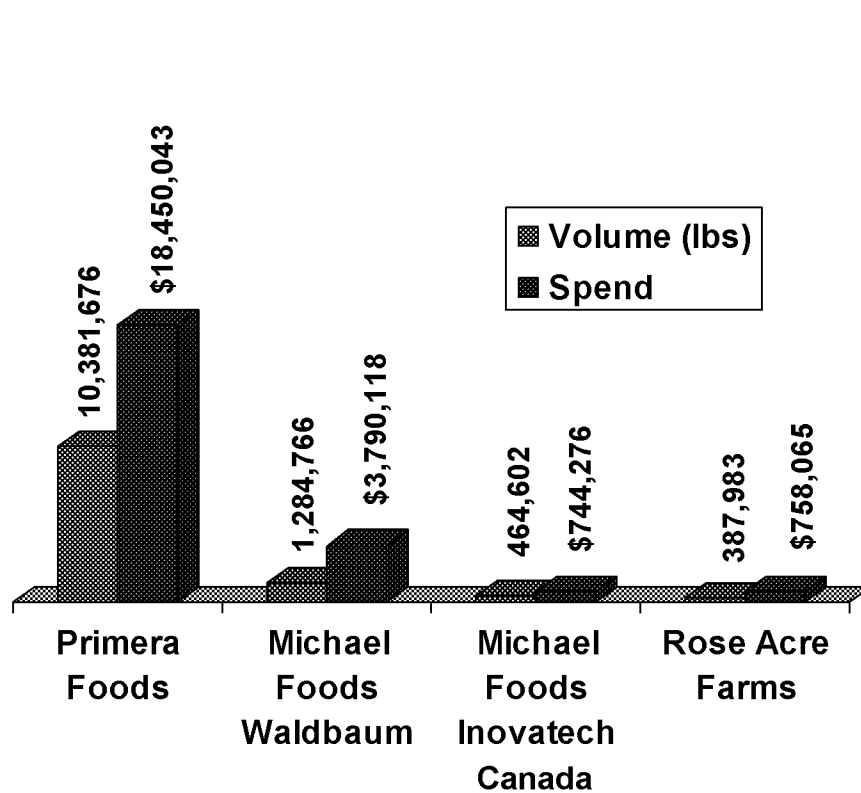
- \* Continue to consolidate specs when possible



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# Dried Egg Supplier Position & Usage by Division



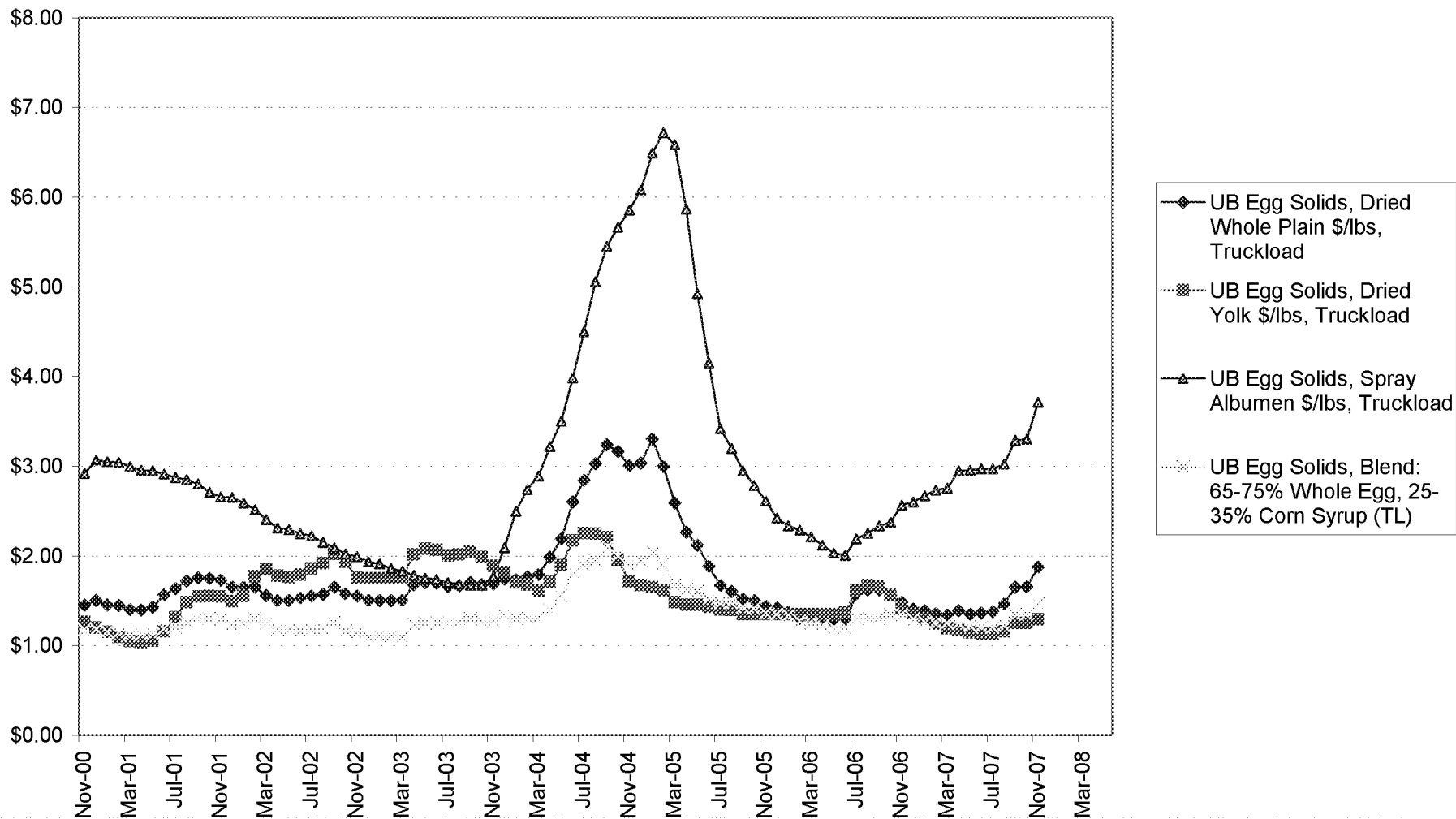
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# Dry Egg Prices

## DRY EGG PRODUCT PRICES



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# Category Summary – Liquid Eggs

## **Category Description:**

- \* \$2.9MM category
- \* Divisions Impacted: B&FS
- \* # of Specs: 6
- \* Major Suppliers: Michael Foods Papettis, Global Egg Corporation, Golden Oval Eggs

## **Current Strategy:**

- \* Convert from liquid to dry whole egg for B&FS
  - Gain better understanding of margins
  - Understand opportunities for spec consolidation
  - Identify productivity opportunities

## **Challenges:**

- \* Volatile egg market
  - Breaking stock prices are rising
- \* Corn prices continue to drive market prices

## **Project Overview:**

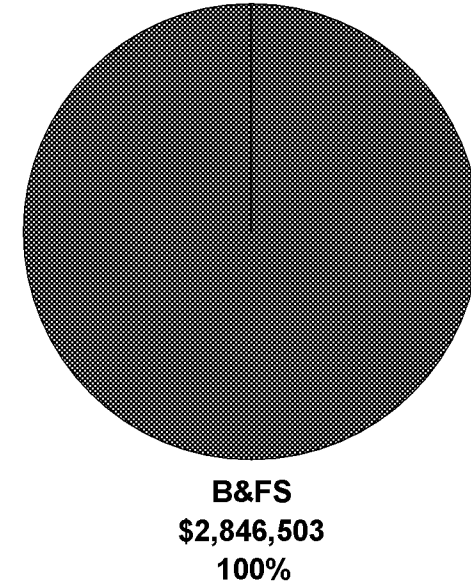
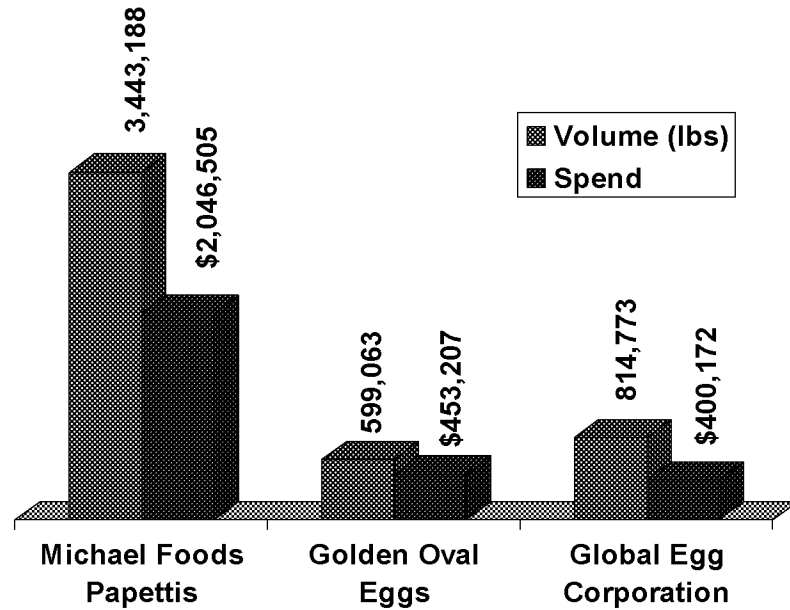
- \* Productivity goal - \$500,000



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# Liquid Egg Supplier Position & Usage by Division

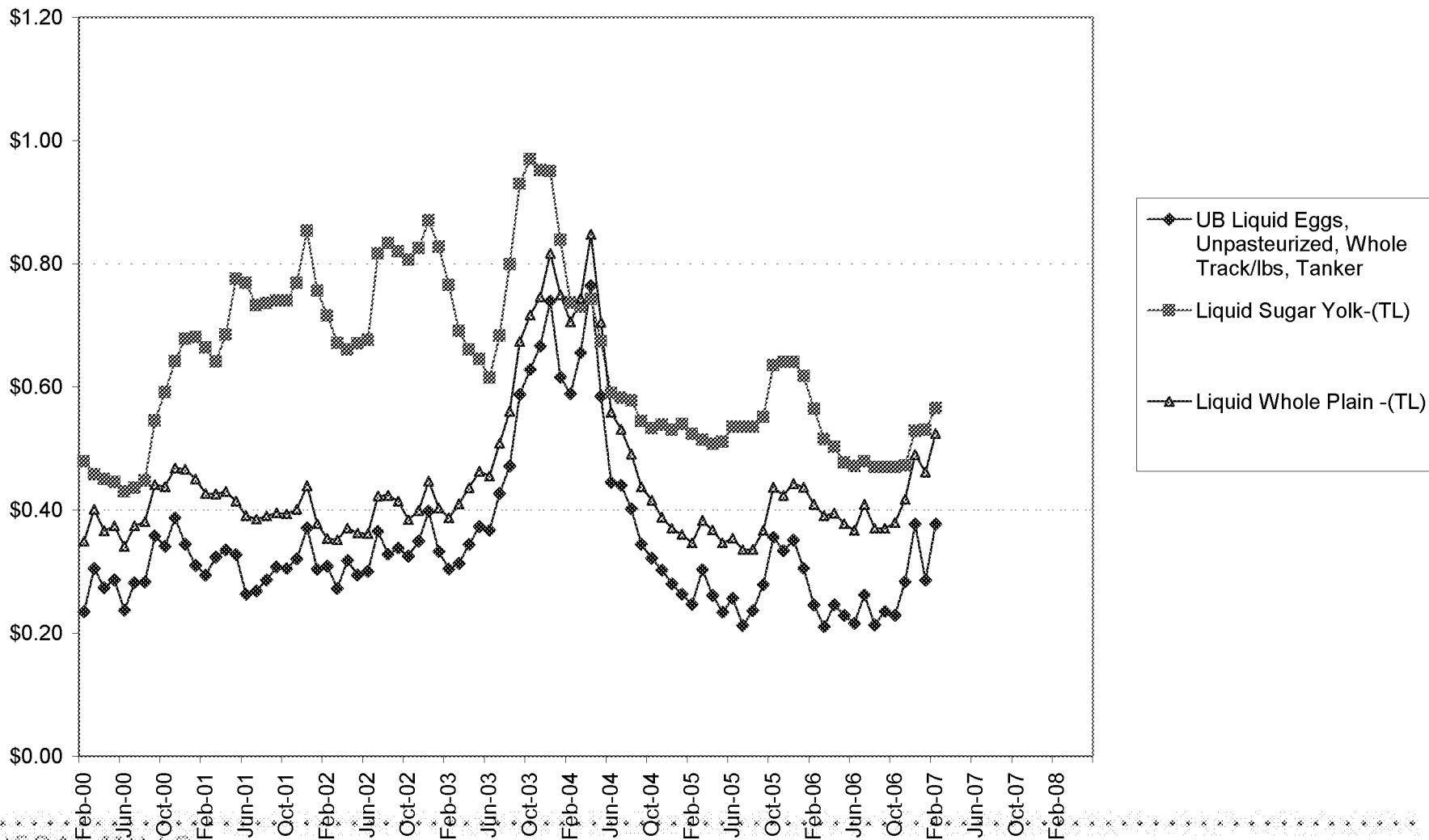


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# Liquid Egg Prices

## LIQUID EGG PRODUCT PRICES



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# Category Summary – Frozen Egg

## **Category Description:**

- \* \$1.8MM category
- \* Divisions Impacted: PBUS
- \* # of Specs: 1
- \* Major Supplier: Michael Foods Papettis

## **Current Strategy:**

- \* Identify a cost effective replacement system for IQF whole egg – Project Scramble

## **Challenges:**

- \* Current formula contains a powdered shortening from Kerry (>\$1.00) that should be replaced w/soy or partial hydrogenated soy oil
- \* Need Michael Foods to provide open book costing, also evaluating Sunny Fresh
- \* GMI owns formula and will own reformulated formula

## **Project Overview:**

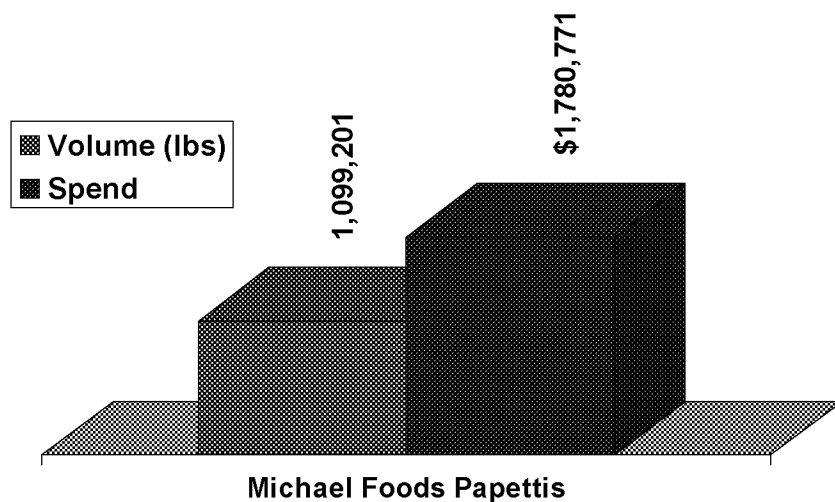


Productivity goal - \$500,000

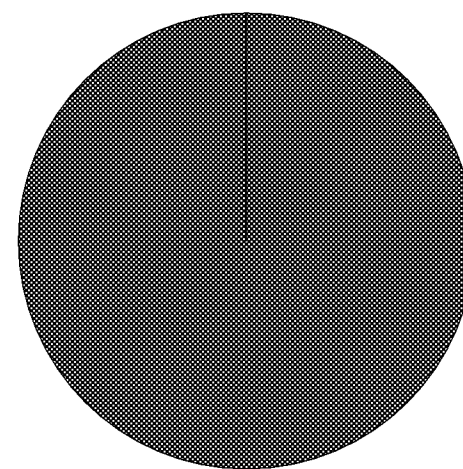
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# Frozen Egg Supplier Position & Usage by Division



Michael Foods Papettis



PBUS  
\$1,703,761  
100%

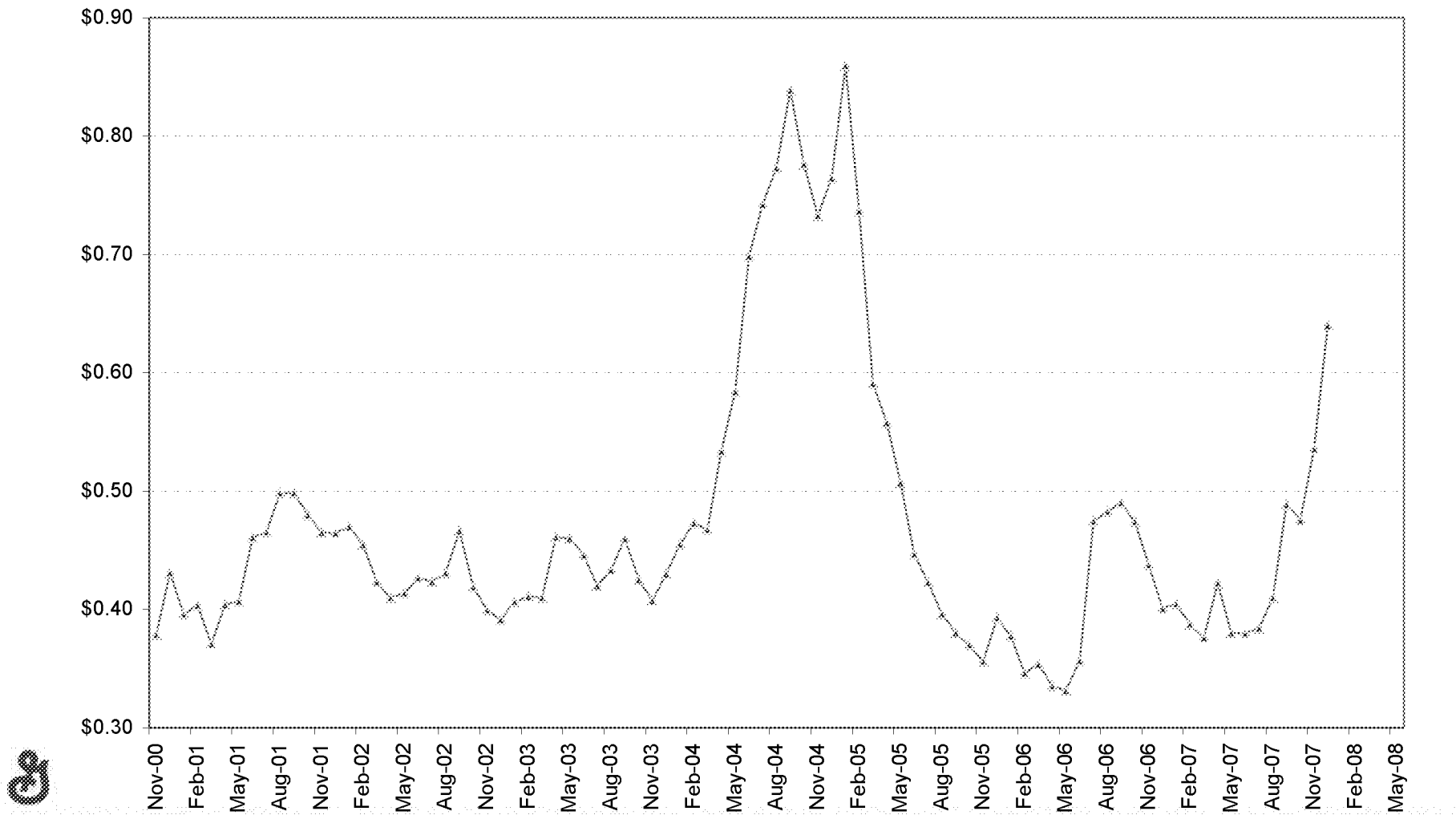


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# Frozen Whole Egg Prices

## FROZEN WHOLE EGG PRICES



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# Back up slides



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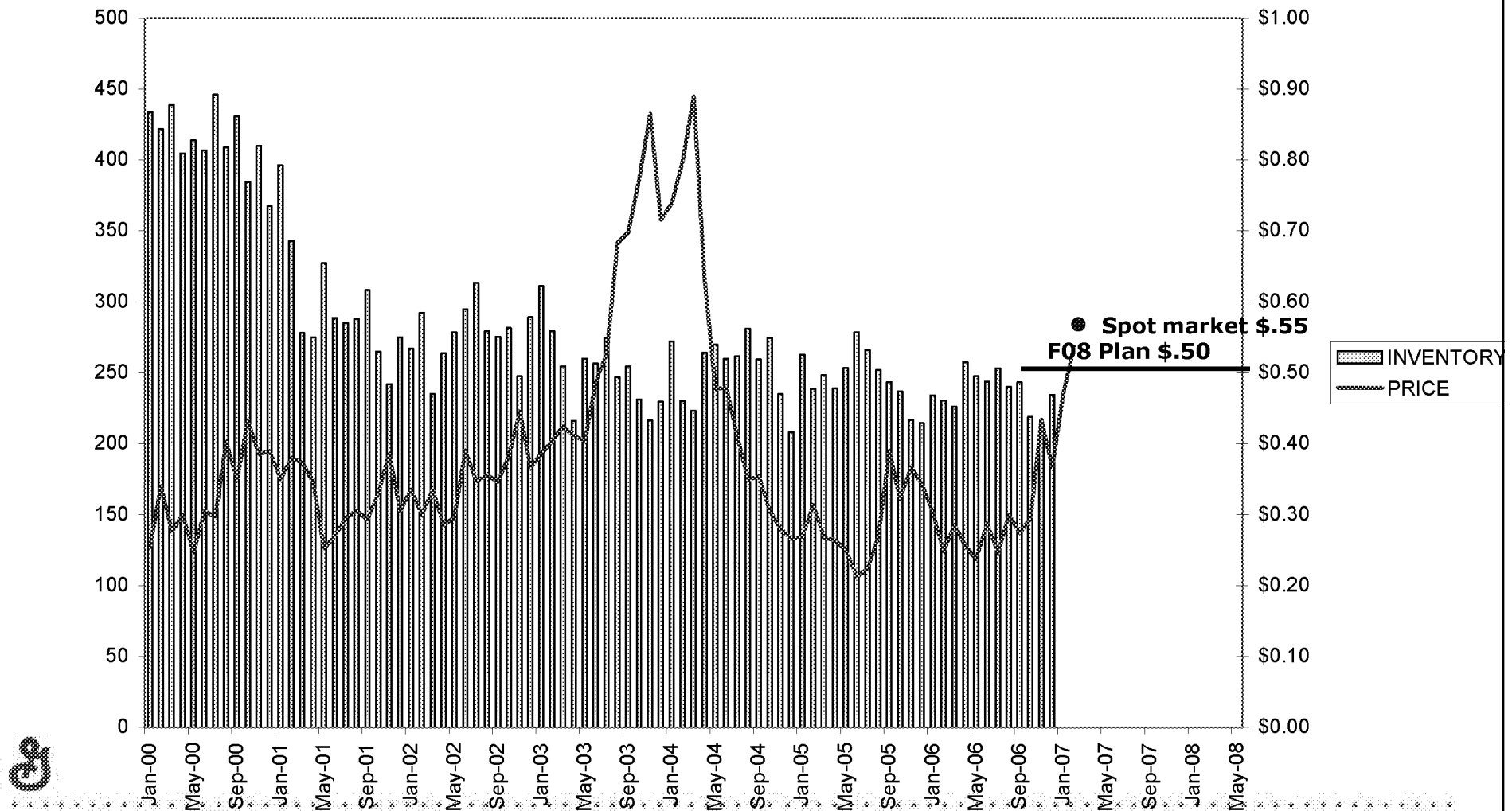
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# Breaking Stock Price vs. Inventory

## BREAKING STOCK PRICE vs. INVENTORY (2000-2006)

UB \*Central, Nest Run Avg, 48-50 Lbs \$/dozen, Delivered, Truckload

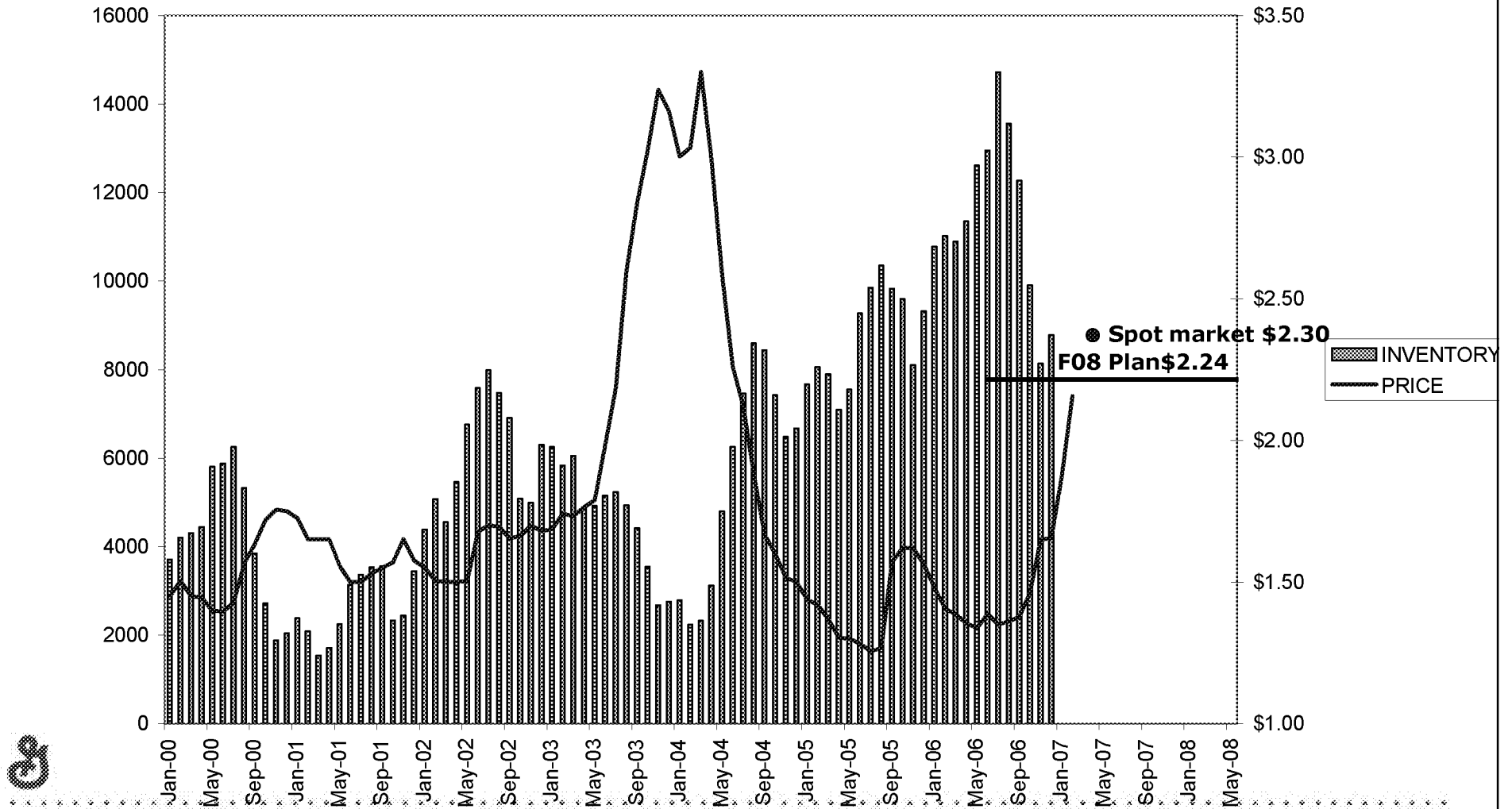


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# Dry Whole Egg Price vs. Inventory

## DRY WHOLE EGG PRICE vs. INVENTORY (2000-2006)

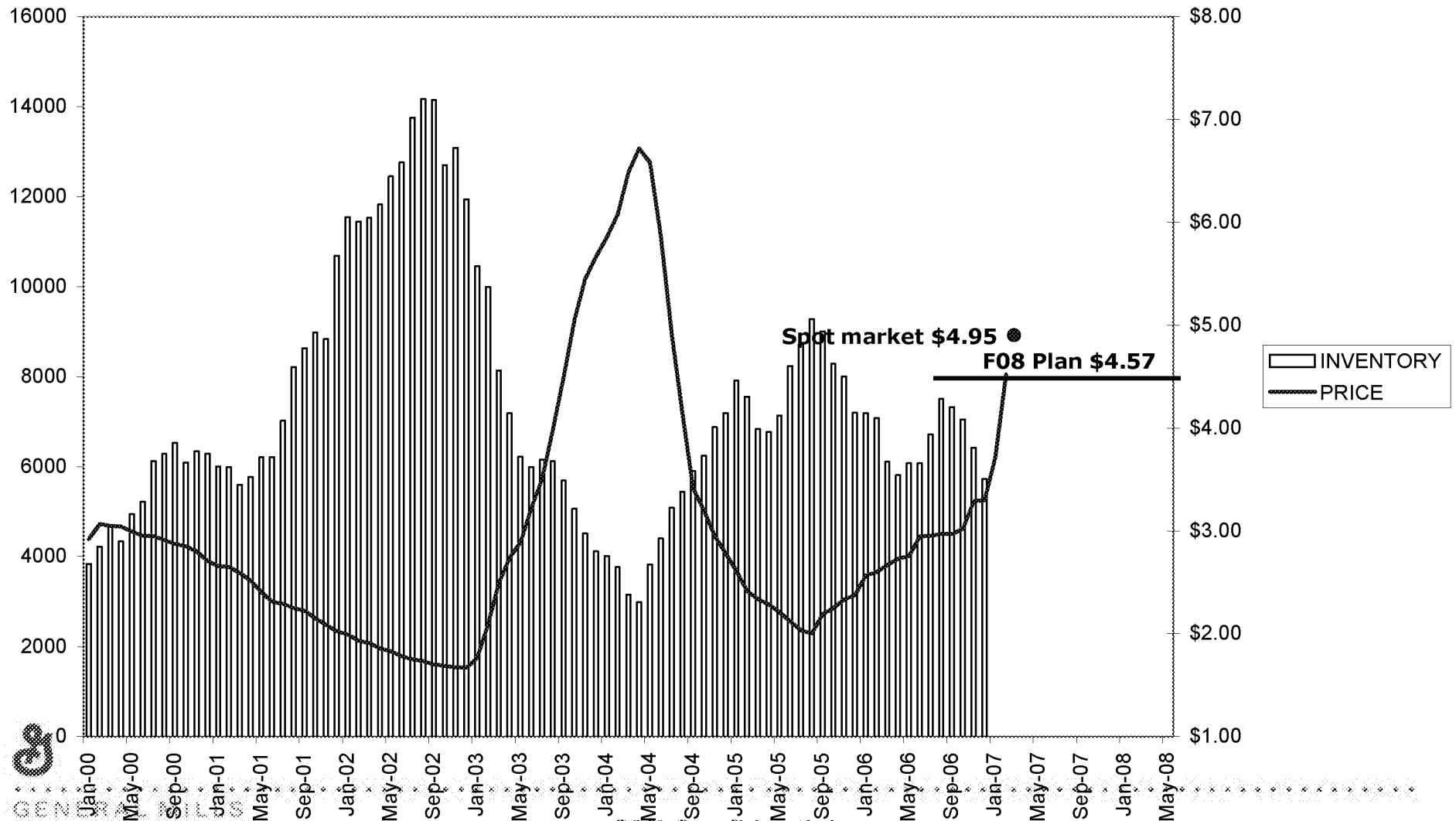


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# Albumen Price vs. Inventory

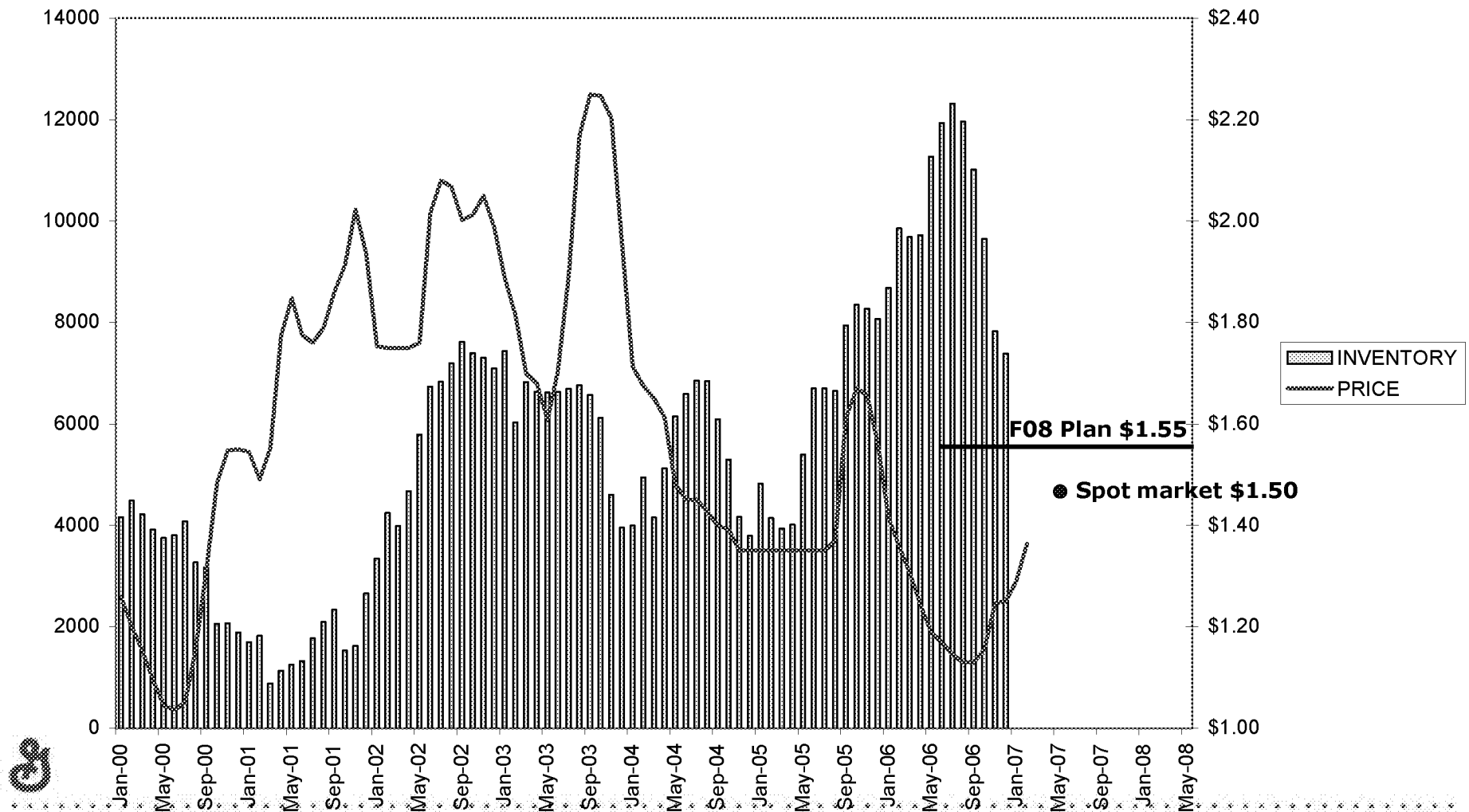
## ALBUMEN PRICE vs. INVENTORY (2000-2006)



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# Dry Yolk Price vs. Inventory

## DRY YOLK PRICE vs. INVENTORY (2000-2006)



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